"With a desire to

introduce a quality

and affordable biotech firm

into my portfolio,

CANGENE SEEMED

TO FIT THE BILL-

improving net returns,

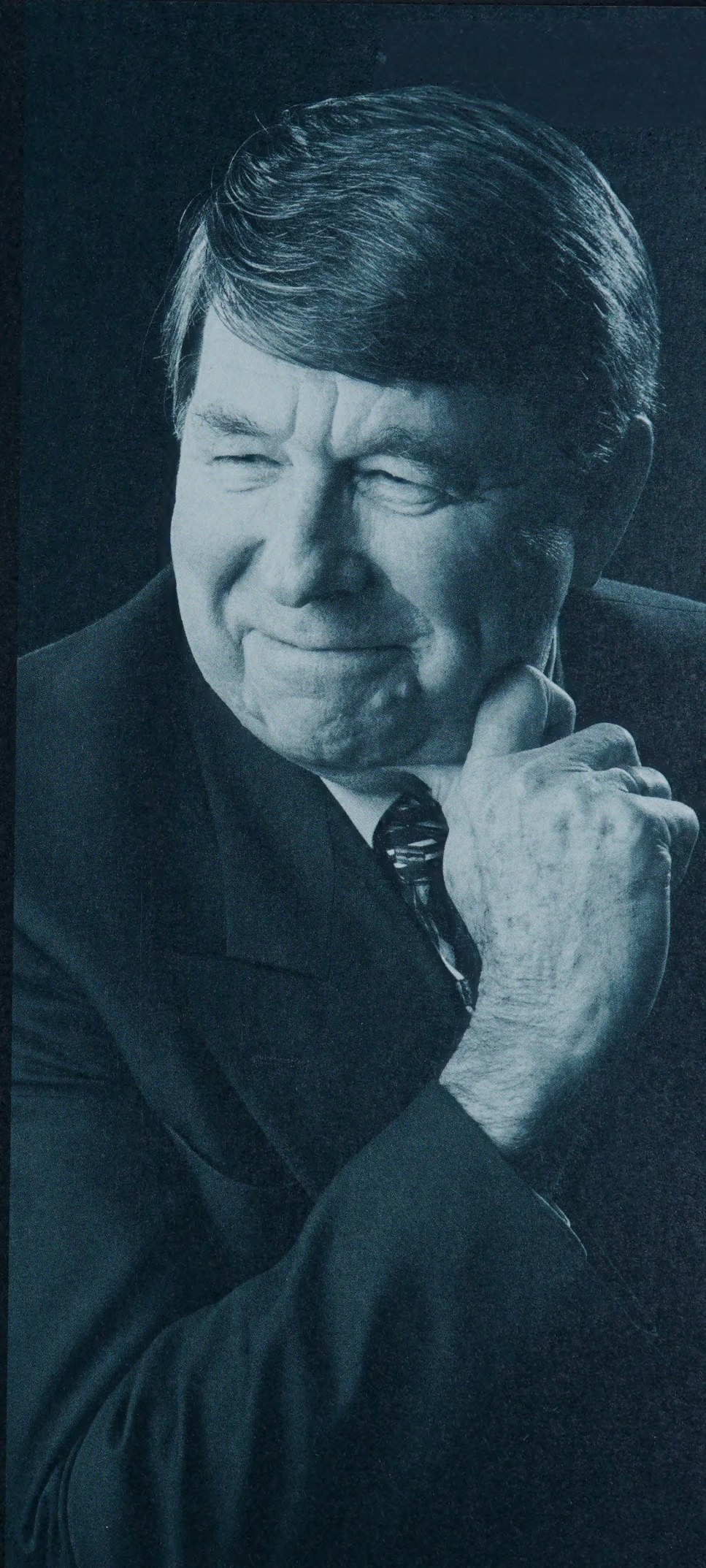
consistent rating as a

rapidly growing company,

and potential for long-term

growth. I'm looking forward

to a bright future."



CANGENE

1999 ANNUAL REPORT

COMPANY PROFILE

Cangene is a profitable Canadian biopharmaceutical company that develops, manufactures and markets specialty plasma products (hyperimmunes) and recombinant therapeutic products for international markets. A growing contract manufacturing business capitalizes on the Company's proven manufacturing expertise and adds to near-term revenue. Cangene posted steady earnings per share increases over the last five years.

For the hyperimmunes, the Company uses an innovative approach to manufacturing traditional plasma products giving it a high yield and product purity that separates it from the competition. Cangene is pursuing a generic-style strategy for its recombinant products. Using its own efficient manufacturing processes, it can capitalize on the successes of known commercial products. Three independent revenue streams from product sales, contract manufacturing, and R&D funding contribute to Cangene's profitability.

The Company's pipeline consists of a number of products with significant commercial potential, and along with one approved product, several are in late-stage clinical trials. The Company believes the balance of profitable and emerging products offers investors significant financial stability and growth potential.

Cangene's majority shareholder, Apotex Holdings Inc., is a world leader in the generic drug industry. Cangene has been listed since 1991 on the Toronto Stock Exchange under the symbol CNJ.

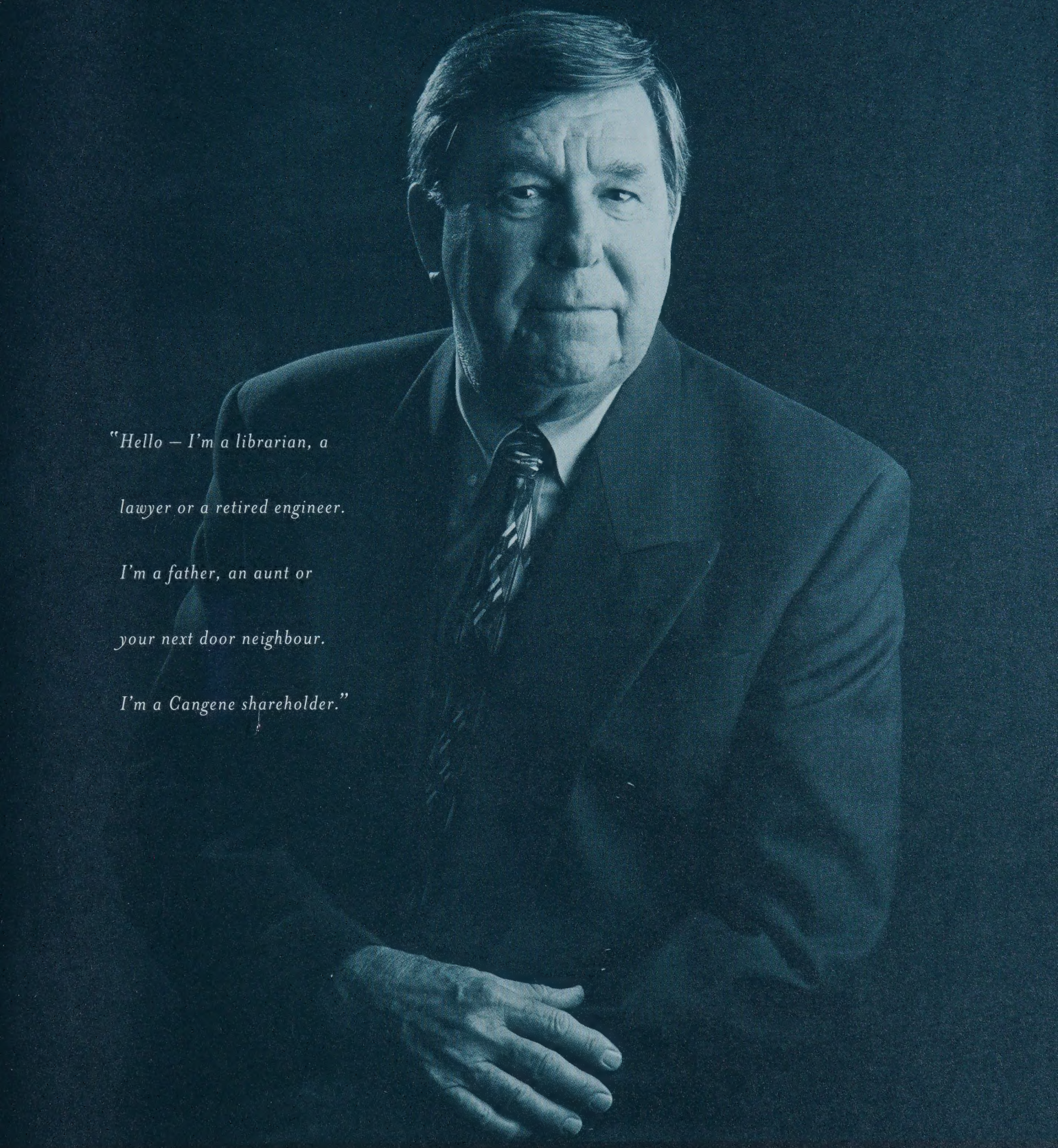
AT A GLANCE

1999 ACHIEVEMENTS

- Winnipeg manufacturing facility granted multiproduct licence by the FDA
- Normal course issuer bid announced; stock buy-back commenced
- First phase of facility expansion in Winnipeg completed; construction of expanded biopharmaceutical manufacturing facility begun
- Cangene sponsored research chair bestowed with prestigious biotechnology award
- WinRho SDF™ approved for ITP use in Israel
- WinRho SDF™ submitted for review in Australia (granted priority review) and New Zealand
- Apotex Inc. extended R&D agreement for additional three years and $25 million
- VariZIG SDF™ (formerly VZIG) Phase III trial completed; submitted for Canadian regulatory review and granted priority review status
- Human growth hormone trial approved in Canada; set to begin
- WinRho SDF™ approved in U.K. and in Brazil
- Initiated third LEUCOTROPIN™ trial
- Apotex's Ferriprox™, a drug for which Cangene has profit-sharing agreement, approved in Europe
- Expansion and renovation of Cangene's Plasma Center in Winnipeg begun
- Contract manufacturing customers more than doubled; contributed more than 10% of year's sales revenue
- Profits up 40%

OBJECTIVES 2000

- Approval of WinRho SDF™ in Australia and New Zealand
- Begin trial of Cangene's own anti-Hepatitis B product
- Continue expanding contract manufacturing business
- Complete construction of new biopharmaceutical manufacturing facility
- Begin clinical development of innovative, yet-to-be disclosed, hyperimmune



This year's annual report features a composite of actual comments from actual Cangene shareholders. The pictured "shareholder" is intended to represent our typical investor – we chose a man because the majority of comments we received came from men. We unfortunately didn't have room to include everyone's comments, but we read them all with great interest and hope that you will continue to send us your thoughts.

HOW DID CANGENE STACK UP IN 1999?

PROFIT MAGAZINE'S

100 FASTEST GROWING COMPANIES

BASED ON SALES GROWTH OVER THE LAST FIVE YEARS, CANGENE WAS 72ND OVERALL AND THIS WAS ITS THIRD APPEARANCE ON THE LIST.

BAYER CORPORATION'S
AWARD FOR OUTSTANDING EFFORT IN PROVIDING THE

HIGHEST QUALITY PLASMA

FOR THE YEAR 1998
PRESENTED IN THE SPRING TO

SEREX INTERNATIONAL INC.,

ONE OF CANGENE'S U.S. PLASMA COLLECTION FACILITIES.

MANITOBA BUSINESS MAGAZINE'S
TOP 50 FASTEST GROWING COMPANIES

CANGENE 3RD OVERALL

AND RECEIVED AWARD FOR BEING ON THE LIST THREE YEARS RUNNING.

CANADIAN BUSINESS MAGAZINE'S

TECHNOLOGY 100

CANADA'S 100 HOTTEST PERFORMERS

CANGENE 34TH BASED ON ONE-YEAR SALES GROWTH AND 85TH IN OVERALL SALES.

ONLY THREE OTHER BIOMEDICAL OR PHARMACEUTICAL COMPANIES MADE THE LIST.

DELOITTE & TOUCHE

CANADIAN TECHNOLOGY FAST 50

TOP 50 FASTEST GROWING

TECHNOLOGY COMPANIES IN CANADA

BASED ON REVENUE GROWTH OVER THE LAST FIVE YEARS

CANGENE WAS THE ONLY BIOPHARMACEUTICAL COMPANY ON THE LIST, AND 48TH OVERALL.

REPORT ON BUSINESS MAGAZINE'S

TOP 1000

A RANKING OF COMPANIES LISTED ON CANADIAN STOCK EXCHANGES, CANGENE RANKED 308TH IN PROFIT OVERALL, UP FROM 439TH LAST YEAR.

ONLY TWO OTHER BIOPHARMACEUTICAL COMPANIES RANKED ABOVE CANGENE.

ALSO RANKED 49TH IN ONE-YEAR RETURN ON CAPITAL.

AMERICAN CHEMICAL SOCIETY

DR. MURRAY MOO-YOUNG, A PROFESSOR OF CHEMICAL ENGINEERING AT THE UNIVERSITY OF WATERLOO AND HOLDER OF CANGENE-SPONSORED RESEARCH CHAIR, RECEIVED THE

MARVIN J. JOHNSON AWARD

FROM THE ACS' BIOCHEMICAL TECHNOLOGY DIVISION;

ONE OF THE MOST PRESTIGIOUS BIOTECHNOLOGY AWARDS IN THE WORLD.

SELECTED FINANCIAL INFORMATION

	YEAR ENDED JULY 31 1999	YEAR ENDED JULY 31 1998	YEAR ENDED JULY 31 1997
Sales	$ 40,568,933	$ 28,300,437	$ 18,146,382
Gross margin	22,640,860	15,140,094	8,879,377
Research income	8,667,347	6,430,482	5,548,899
Other income	268,913	263,881	194,955
Research expenses (net of investment tax credits)	10,036,150	7,045,164	6,051,628
Net income	15,412,179	11,000,427	5,269,959
Earnings per share	0.26	0.19	0.09
Cash, end of year	12,907,849	1,176,378	734,313
Shareholders' equity	45,459,779	30,183,016	19,135,939
Shares issued and outstanding at July 31	59,210,420	59,147,220	59,123,220

QUARTERLY FINANCIAL RESULTS

	QUARTER ENDED OCTOBER 31, 1998	QUARTER ENDED JANUARY 31, 1999	QUARTER ENDED APRIL 30, 1999	QUARTER ENDED JULY 31, 1999
Total revenue	$ 10,296,168	$ 11,696,597	$ 12,680,705	$ 14,831,723
Net income	3,007,744	3,585,031	3,981,801	4,837,603
Earnings per share	0.05	0.06	0.07	0.08

QUARTERLY STOCK MARKET INFORMATION

FOR YEARS ENDED JULY 31	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
	1999	1998	1999	1998	1999	1998	1999	1998
High*	4.50	2.65	5.25	3.30	5.50	4.95	5.10	4.90
Low*	3.35	2.00	3.50	2.25	4.65	2.80	4.45	4.00
Close*	4.00	2.45	4.80	2.80	4.95	4.75	5.00	4.30
Volume	394,125	913,568	622,143	846,124	611,368	1,453,819	390,743	531,473

* Highs and lows based on board lot trades on the TSE; closing price based on last business day of the quarter

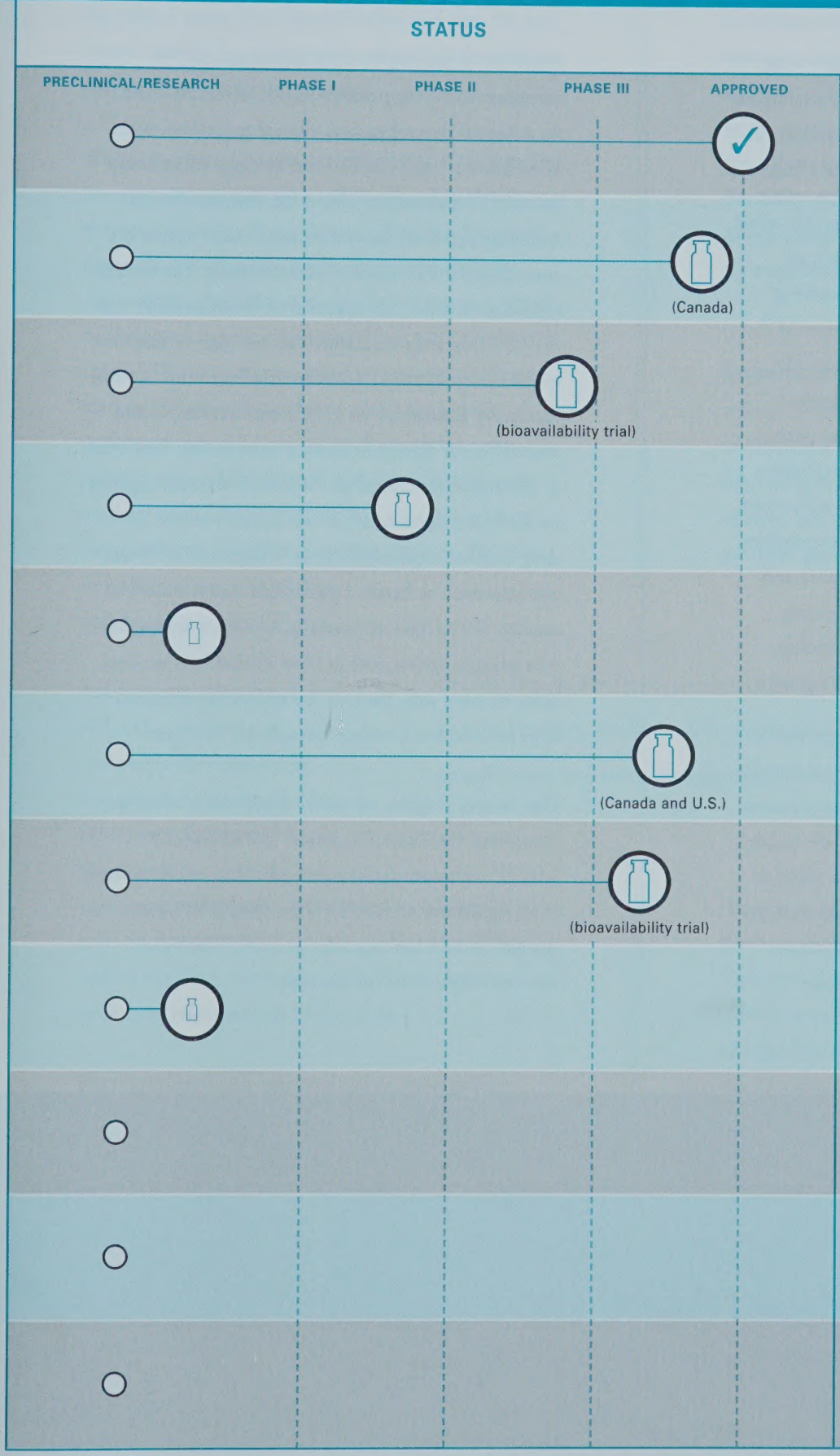
REPORT CARD

STATED 1999 OBJECTIVE		HOW DID WE DO?
Begin human growth hormone trial	✓	Trial received regulatory clearance; bioavailability trial set to begin in October
Begin trial of Cangene's anti-Hepatitis B product		Start deferred as Nabi-HB™ and other Cangene projects given higher priority; IND filing Q1 fiscal 2000 and expect to begin trial Q2 fiscal 2000
Continue to increase contract manufacturing initiative	✓	Five new contracts signed including one with Valentis, Inc., a world leader in the gene therapy field; contract manufacturing >10% of 1999 sales revenue
Expand WinRho SDF™ geographically	✓	Approved in U.K. and Brazil; submitted in Australia (granted priority review) and New Zealand; submitting for mutual recognition in Europe
Submit VariZIG SDF™ (formerly VZIG) for approval in Canada	✓	Submitted and priority review status granted

PRODUCT	DESCRIPTION	INDICATION
WinRho SDF™	**HYPERIMMUNE** – purified antibody specific for Rh+ red blood cells (also called Anti-D immunoglobulin)	Preventing **HEMOLYTIC DISEASE OF THE NEWBORN** and treating **ITP** (a platelet disorder)
VariZIG SDF™ (formerly VZIG)	**HYPERIMMUNE** – purified antibody specific for *Varicella zoster* virus (chicken pox virus)	Preventing **CHICKEN POX IN PREGNANT WOMEN**
Anti-Hepatitis B	**HYPERIMMUNE** – purified antibody specific for Hepatitis B virus.	Preventing **HEPATITIS B** infection
CNJ H01	**HYPERIMMUNE** – undisclosed antibody	Undisclosed
CNJ H02	**HYPERIMMUNE** – undisclosed antibody	Undisclosed
LEUCOTROPIN™	**BIOPHARMACEUTICAL** – Granulocyte-Macrophage Colony-Stimulating Factor (GM-CSF) – protein that enhances mature, infection-fighting white blood cell production	Enhancing mature **WHITE BLOOD CELL PRODUCTION** in stem cell transplantation for cancer patients
hGH	**BIOPHARMACEUTICAL** – Human Growth Hormone – protein that promotes growth of long bones before puberty and has a positive metabolic effect on tissues	Children with **SHORT STATURE**; possible **GERIATRIC** applications
CNJ R03	**BIOPHARMACEUTICAL** – undisclosed recombinant protein	Undisclosed
CNJ R04&5	**BIOPHARMACEUTICAL** – undisclosed	Undisclosed
RHAMM	**INNOVATIVE** – collaborative project investigating peptides that affect wound healing and may reduce scarring	Potential uses such as **SURGICAL INCISIONS, BURNS AND FIBROSES**
CNJ I03	**INNOVATIVE** – technology to modify or improve products made using CANGENUS™	Undisclosed

The above table contains certain forward-looking comments that involve risks and uncertainties. While the comments reflect management's judgement, there can be no guarantees with such events

PRODUCT PIPELINE



MILESTONES (BASED ON CALENDAR YEAR)
New Zealand and Australian approvals (expected Q2/2000); European Union approval (expected Q4/2000)
Canadian licensure (expected H2/2000)
Begin Canadian comparative bioavailability trial Q1/2000
File Canadian IND (expected Q1/2000)
File Canadian IND (expected H2/2000)
Add U.K. sites to Canadian chemotherapy trial (expected Q4/1999)
Begin Canadian comparative bioavailability trial (Q3/1999)
Begin preclinical testing (expected Q4/2000)
various/undisclosed
Develop preclinical and clinical trial plan (expected H1/2000)
Begin preclinical testing (expected H2/2000)

as regulatory approval, clinical trial progress, the commercial or technical success of new products, or the availability of raw materials. Actual results may differ materially from those projected.

MESSAGE TO SHAREHOLDERS

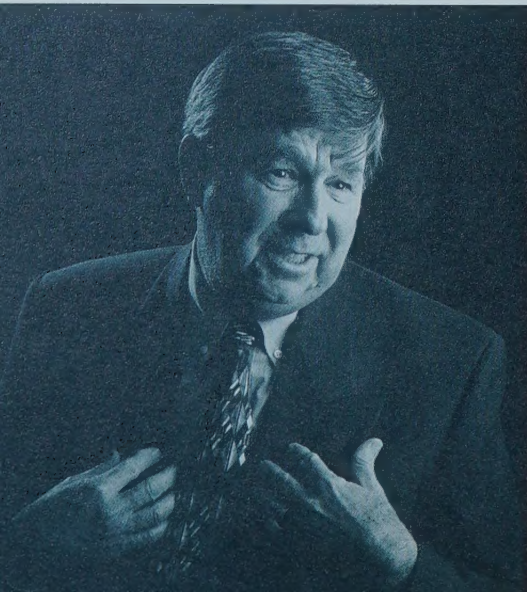
IN AN INDUSTRY characterized by extremely long time-lines, it's quite an accomplishment for a company in its 15th year to have as many advanced products as Cangene has, and a balance sheet as healthy as Cangene's.

Cangene is a member of an exclusive group. An article in the October 1999 issue of Investor Direct, an American investor magazine, states *"the number of profitable biotechnology companies has grown to 14."* If we add the profitable Canadian companies, the number is still less than 20 – a very small group, and yet Cangene has been profitable for five years. We constantly distinguish ourselves as one of only a handful of Canadian companies in the biotechnology sector able to make that claim. We were the only bio-pharmaceutical company to make the Deloitte and Touche Fast 50 list of the top 50 fastest growing technology companies in Canada, demonstrating an industry-leading track record for revenue growth.

I'm particularly proud of the fact that our growth is driven by increases in product sales as well as contract manufacturing revenue. In that sense we are a manufacturing company where value is created one vial at a time. I don't think you should ignore our pipeline though – our low-risk product development strategy means that we have every reason to expect success from a significant percentage of our products.

PRODUCTS and SERVICES WinRho SDF™ continues to be our primary source of revenue, and we achieved two substantial clinical milestones with WinRho this year. The first was its approval in Israel for the ITP indication. This is the first non-North American approval for this indication and begins our entry into the ITP market internationally. The second milestone was the July approval of WinRho SDF™ in the U.K. You may remember that last year at this time we had just submitted WinRho SDF™ to the German regulatory authorities for review and were expecting that to be our European market entry point. However, at the urgent request of the Medicines Control Agency in the U.K., we focused on that country where the drug received expedited review. WinRho SDF™ was also approved in Brazil, a significant South American market. We've filed in Australia, where we were granted a priority review, and in New Zealand. As we continue to enter new markets, we expect international sales to continue growing through the next year.

Our second product advanced significantly when we completed the Phase III clinical trial of VariZIG SDF™, our anti-chicken pox product, and submitted it for regulatory review. We were pleased to subsequently receive fast-track designation, which can shorten review time considerably.



"Cangene was the first security I purchased. As a small investor, with very limited funds for investing, I was most concerned with buying into a solid, Canadian company with a strong bio/medical emphasis, not too pricey, and with, what I feel are, good products with real potential for eventual growth. Also important to me was the benefit these products have from a social viewpoint. I am in for the long term."

"While not a finance-type, I am concerned about my future, and would like to have some income from an investment like Cangene for my retirement years."

About the same time, we moved our fourth drug into the clinical arena. Our bioavailability trial plan for our human growth hormone product was okayed, and the trial itself will begin this month.

We began a new Canadian trial for LEUCOTROPIN™ this year – investigating its role in white blood cell recovery following chemotherapy. This trial broadens the scope of indications under investigation for the drug and parallels alterations in clinical practice, which has bolstered patient recruitment for LEUCOTROPIN™ testing. The original trial relied on recipients of bone marrow transplants, and fewer of these are being performed now as increasing evidence shows many patients respond just as well to the less onerous technique of stimulating production of circulating white blood cells instead of bone marrow reserves. We plan to further expand this trial by opening sites in the U.K.

Another regulatory event that will add to our revenue stream was the approval in Europe for Apotex Inc.'s drug deferiprone (Ferriprox™). Cangene has a profit-sharing agreement with Apotex with respect to this product and will receive 50% of any net profits earned from sales of the drug worldwide, while Apotex retains marketing responsibility for the drug.

This year's growth in our contract manufacturing business brings a solid addition to our near-term revenue stream and speaks highly of our ability to develop and manufacture diverse products. Our outstanding reputation is a valuable asset. The contract manufacturing initiative is now a key component of our growth strategy. In a recent research report, CIBC World Markets' Biotechnology and Health Sciences analyst, Lennox Gibbs, wrote *"Contract manufacturing is the up-and-coming pharmaceutical services sub-segment, with pharmaceutical companies only recently beginning to embrace the manufacturing outsourcing trend so common in other industries."* I believe this is true and Cangene is well-placed to become a significant player in the contract manufacturing marketplace. Our structure allows us to combine strength and stability with flexibility and adaptability. Our customer list has grown to eight, and contract manufacturing accounts for more than 10% of this year's sales revenue.

GROWTH STRATEGY I've already mentioned three aspects of our growth strategy – geographic expansion of WinRho's markets, cultivation of our contract manufacturing business and, of course, new product development (see pipeline page 4 and 5). But another potential growth opportunity for Cangene is through acquisition of other biotechnology companies with products and technologies that complement Cangene's. Earlier this year, we made an unsuccessful offer to acquire all the issued and outstanding shares of Hyal Pharmaceutical Corporation. We continue to consider other opportunities, in Canada and abroad, that present a good fit.

In January of this year we began an issuer-bid stock buy-back. We felt this was a good use of some of this year's cash flow. We purchased a total of 101,900 shares prior to our fiscal year-end, although we were prevented from trading during a significant portion of the year due to corporate developments. The issuer bid can continue until December 31, 1999.

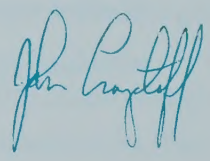
This has been another good year on all fronts. We had four consecutive quarters with increased earnings per share. Our profits were up 40% overall, and our contract manufacturing business grew significantly. We achieved major clinical milestones as well.

FINANCIAL RESULTS We set a record with our profit again this year with net income reaching $15,412,179 or $0.26 per share, an increase of 40% over last year's profit of $11,000,427. Sales rose significantly over last year, with total sales for the year of $40,568,933, an increase of 43% over the year-earlier period. The increase is due mainly to increased U.S. sales and contract manufacturing revenue. Gross margin increased from 53% in the year earlier to 56% in the current year. Strong U.S. and contract manufacturing sales, and improved product yield from plasma contributed to margin growth.

Research revenues were $8,667,347 for the current year, an increase of $2,236,865 or 35% over the year ended July 31, 1998. This increase is a result of greater development costs associated with Apotex Inc.-funded projects during the year. Research expenses for the current year, net of investment tax credits, were $10,036,150, an increase of 42% over last year. This significant increase resulted from increased clinical trial activity and new projects. Cash at July 31, 1999 was $12,907,849.

SHAREHOLDER INPUT This year we asked for comments from your fellow shareholders because we thought it would be valuable to hear what aspects of Cangene capture the attention of our investors. Many of those who responded cited our products, and our sales and profit growth as reasons for investing, and many referenced their confidence in management and future growth potential as reasons they saw Cangene as a long-term investment. Others mentioned Apotex's commitment to our R&D, societal benefits of our products, the fact that we are Canadian, and a general interest in the biomedical sector as reasons for their investment. We were extremely gratified that so many of you responded. We've included some of the comments throughout the report and wish that we had room to include everyone's comments. Thank you for your input and your confidence.

Finally, I'd like once more to thank our Board and our employees for their outstanding commitment. I believe Cangene has assembled one of the finest teams in the biopharmaceutical industry and we remain focused on capitalizing on that expertise. We're committed to getting high-quality drugs to the marketplace efficiently and building real shareholder value.



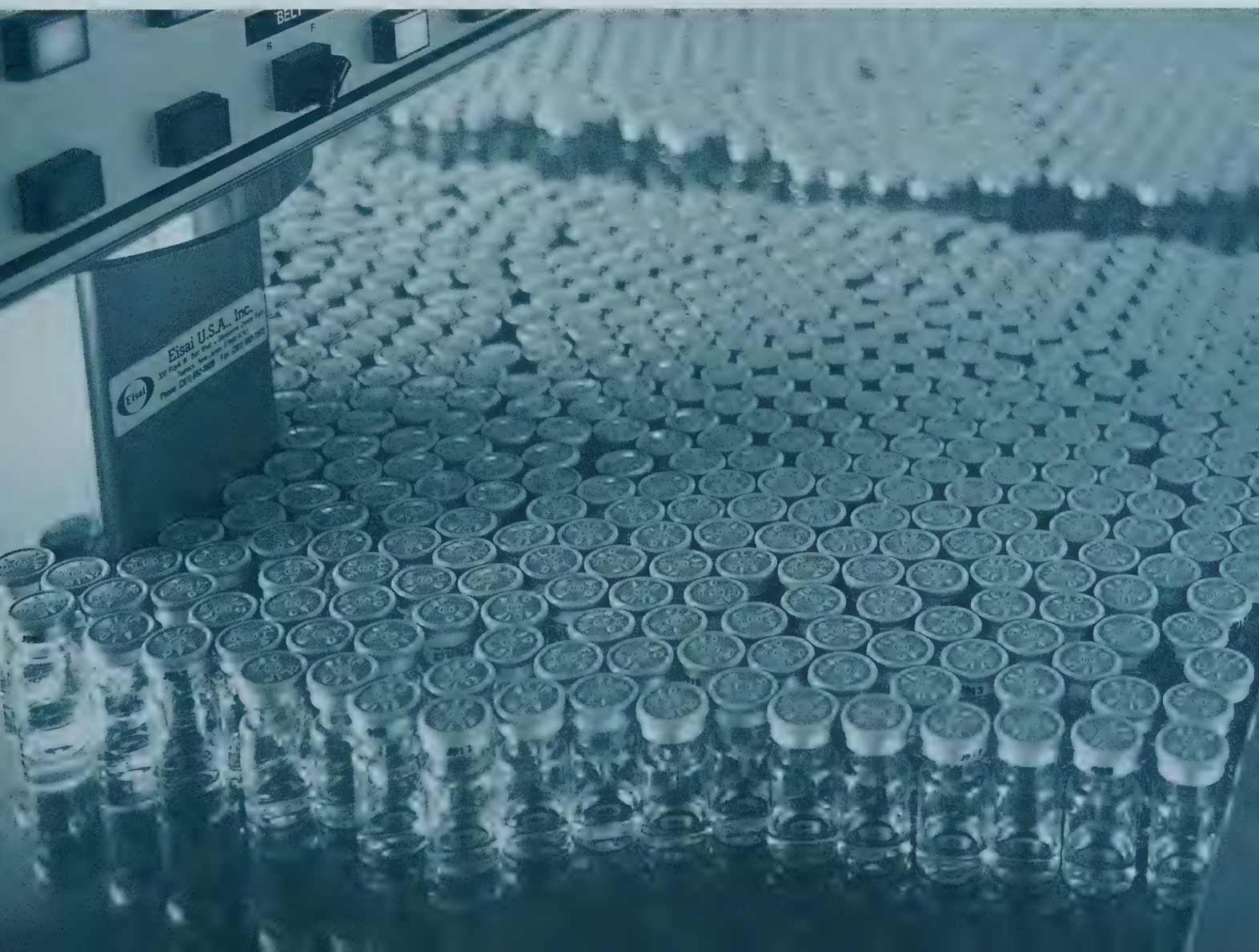
Dr. John Langstaff
President and Chief Executive Officer
October 12, 1999

PRODUCT DEVELOPMENT STRATEGY – STRENGTH IN TECHNOLOGY

Cangene's approach to product development differs from many biopharmaceutical companies – rather than concentrating on a single product or even a single disease area, Cangene develops products that arise from platform manufacturing technologies. Its strength is in its technology and the ability to turn that technology into products. This approach diversifies risk and minimizes some of the difficulties of new product development, and while perhaps less likely to produce a blockbuster product, helps Cangene build a solid product pipeline with steady growth potential.

With the exception of heterogeneous research projects in its discovery research program, Cangene's products can be classed into two different technology areas. The first is hyperimmunes: concentrated antibody preparations made from human plasma; and the second is biopharmaceuticals: recombinant proteins – which are made by introducing a specific gene into a host cell system where the protein is produced – that are purified for use as a drug.

HYPERIMMUNE COMPETITIVE STRATEGY – SMALL BATCH, HIGH-VALUE Being plasma products, hyperimmunes may not sound like biotechnology products, but Cangene's hyperimmunes are biotechnology products because of the way they're made. Using a small-batch approach and sophisticated purification technology, Cangene focuses on high-value, high-margin



specialty products rather than competing with large plasma producers for the high-volume, lower-margin products. Special methods that inactivate and remove viruses ensure Cangene's hyperimmunes are of the highest possible quality. The resulting purity of Cangene's products gives them a competitive advantage by enabling alternative routes of administration, thus opening opportunities for new uses.

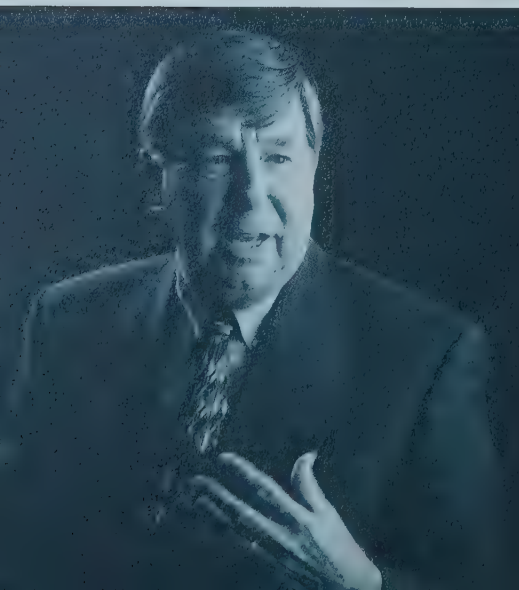
What's the difference between a hyperimmune and a vaccine?

Unlike vaccines, hyperimmunes do not require the patient's own immune system to produce the immunity, which takes time. In cases where the protection is required immediately or the immune system is not functioning properly, a hyperimmune gives immediate immunity. This immediate effect is called passive immunity: it fades with time and does not produce the memory effect that actually contracting an infectious disease or administration of a vaccine produce.

BIOPHARMACEUTICAL COMPETITIVE STRATEGY – A NOVEL APPROACH Cangene excels at cost-effective production of recombinant proteins using proprietary technologies. Cangene's strategy is to pursue subsequent-entry products – therapeutic equivalents of products already successful in the marketplace – and compete on the basis of price and quality. The advantage of this strategy is reduced risk in the product development stage and possibly less extensive clinical testing. This approach is similar to that of the generic companies in the traditional pharmaceutical industry. Cangene's development of these products is supported by R&D funding from Apotex Inc., a world leader in the generic drug industry. Apotex and Cangene have an eight-year, $55 million R&D agreement that runs until 2003.

SO WHAT WOULD CANGENE'S PRODUCTS BE USED FOR? **For preventing Hemolytic Disease of the Newborn** – Sounds serious? It was. HDN is a severe blood-type incompatibility that can occur between a pregnant woman and her unborn child. The problem occurs when the mother's blood is a negative type (e.g., O^-) and the baby's blood type is positive. Blood type distributions vary in different populations, but about 3-7% of pregnancies could develop HDN if untreated. Cangene's **WinRho SDF™** is 99.9% effective at preventing this condition when administered properly. **WinRho SDF™** is recognized by worldwide customers for its excellent track record of safety.

KEY POINTS: newest major approvals in the U.K. and Brazil; used in almost all at-risk pregnancies in Canada; has been sold in more than 20 countries worldwide; international sales expanding; total **WinRho SDF™** sales account for about three quarters of Cangene's total sales; priority review status granted in Australia



"I made the decision to invest based on the Apotex commitment to R&D and an analyst's review. I have since made further purchases for my daughters to allow them to acquire some financial assets for either university or beyond. So far, the decisions have proved sound, and we continue to have complete confidence in the company and its management."

For treating Immune Thrombocytopenic Purpura or ITP – Never heard of it? This comparatively common disorder affects about 10-125 people per 1,000,000 in the general population, and incidence leaps in populations of AIDS patients. It is an autoimmune disorder, causing abnormal destruction of the blood platelets and potentially leading to severe bleeding. As with many autoimmune disorders, women are affected more commonly than men; in adults with chronic ITP, incidence in women vs. men is about 3:1. **WinRho SDF™** is a relatively new, but very effective, treatment that is possible only because Cangene's product is pure enough to be administered intravenously.

KEY POINTS: newest approval Israel; U.S. **WinRho SDF™** sales (Cangene's largest market) are primarily for this indication; **WinRho SDF™** was granted Orphan Drug Status in 1995 giving it U.S. market exclusivity for this use until 2002

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For preventing Chicken Pox in pregnant women – An important but small market. Chicken pox can cause serious complications during pregnancy, and pregnant women who are not already immune may be particularly susceptible to infection. Cangene's **VariZIG SDF™** (formerly VZIG) is a concentrated antibody to the virus that causes chicken pox.

KEY POINTS: completed Canadian Phase III testing and submitted for regulatory review; granted fast-track status; potential market estimated at about $20-40 million

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For cancer patients receiving chemotherapy or who had a bone marrow transplant – Cangene's **LEUCOTROPIN™** is in Phase III clinical testing in Canada and the U.S. for its ability to stimulate white blood cell recovery in these patients. **LEUCOTROPIN™**, Cangene's first recombinant biopharmaceutical to reach the clinic, is its brand of GM-CSF, a protein that stimulates the formation of mature white blood cells, which are key components of the immune system. If white blood cell levels can be maintained, patients may be able to tolerate more aggressive cancer treatments. As a subsequent-entry product, **LEUCOTROPIN™** will compete in a billion dollar market with other GM-CSFs and G-CSF, a protein with a similar function. A small share of this market could be extremely lucrative for Cangene.

KEY POINTS: large but competitive market; three Phase III trials underway (two in Canada, one in the U.S.); plans to expand one of the Canadian trials to sites in the U.K. shortly; product distributed in Canada under Special Access Program

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For children who don't produce enough growth hormone to reach normal stature – Variation is good, but some children lack sufficient natural growth hormone to reach the normal range. These children may benefit from a product like Cangene's **human growth hormone.** This is Cangene's second subsequent-entry product, and will be the first for which the initial clinical trial is a comparative bioavailability study, where Cangene's drug is compared with an already approved product. The Company plans to follow with a Phase III trial in children with abnormally small stature, and possibly a second one that

Plasmapheresis

Cangene collects specialty plasma – plasma that contains high levels of selected antibodies. Donating plasma is similar to donating whole blood, except that the donor's red blood cells are returned. Since the body essentially only has to replace the fluid portion of the blood, donors can give plasma once a week (twice weekly donations are allowed in the U.S.), as opposed to once every eight weeks for whole blood donations.

Cangene's growth is driven by increases in product sales and contract manufacturing revenue — in that sense, it's a manufacturing company where value is created one vial at a time.

would look at the drug's potential use in speeding overall recovery in elderly patients who have sustained bone fractures. Therapeutic use of growth hormones has also been shown to alleviate the wasting that often accompanies AIDS and some cancers.

KEY POINTS: comparative bioavailability approach approved as initial clinical trial; will compete with several products in a market that for current players exceeds $1 billion

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For preventing transmission of Hepatitis B virus – Healthcare workers are one of several groups at risk of Hepatitis B infection. The virus is approximately 100 times more infectious than HIV; the infection can become chronic and produce severe liver problems. As well as healthcare workers, newborns with Hepatitis B-positive mothers, intravenous drug users and individuals with multiple sexual partners are at risk. Cangene's **anti-Hepatitis B** product will be its third hyperimmune product to enter clinical trials.

KEY POINTS: Canadian IND filing Q1 fiscal 2000; planned bioavailability trial to support licensure early next year; potentially very large market

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New hyperimmunes – Cangene is developing innovative hyperimmune products – one of these should enter clinical testing early next year and a second is not far behind. As with other hyperimmunes, development is fairly straightforward as long as plasma with high levels of the necessary antibodies is available. Cangene will disclose the identity of these unidentified products as their development progresses, and believes they could have significant markets.

KEY POINTS: development of new hyperimmune products is fairly predictable based on WinRho SDF™ manufacturing experience and the availability of plasma; early-stage product; potentially very large markets

•

For healing wounds, burns and surgical incisions – Sometimes slower is better. One of Cangene's innovative projects is the development of **RHAMM** peptides. These are portions of proteins that affect the way in which tissue heals – allowing it to heal in a more orderly fashion and possibly reducing scarring.

KEY POINTS: of significant interest surgically; still in the research stage, may enter preclinical testing next year; Cangene may license this project

Cangene's Rh Plasma Center expansion

Cangene is currently expanding and improving its Winnipeg plasma collection facility. With an eye to further expansion of its plasma collection programs, Cangene is investing in its existing facility. Cangene maintains a cadre of dedicated donors, some who have given more than 1000 plasma donations. While the donors of plasma used to manufacture WinRho SDF™ have historically been female, Cangene now looks for male donors with Rh blood types as well. For more information about our donor recruitment program please visit our website at www.cangene.com.

CANGENE'S DISCOVERY RESEARCH PROGRAM

In collaboration with other groups, Cangene maintains research programs aimed at developing innovative technologies and products for long-term maintenance of the pipeline. The **RHAMM** project discussed above is the product of one of Cangene's collaborations with hospital researchers. Cangene may seek to partner technologies or products developed through its discovery research programs or may choose to pursue commercial development internally.

KEY POINTS: early stage projects; possible long-term additions to pipeline; may partner projects

CONTRACT MANUFACTURING

AFTER JUST ONE YEAR of marketing services, contract manufacturing accounted for more than 10% of Cangene's revenue. With eight satisfied customers to its credit, Cangene's contract manufacturing team has tackled diverse technologies with remarkable success.

Contract manufacturing is a growing service in the pharmaceutical and biopharmaceutical industries. Pharmaceutical companies often lack in-house expertise in newer technological methods, and biotechnology companies often lack scale-up experience and validated facilities in which to manufacture. Even other contract manufacturers may choose to outsource part of their operations. Cangene offers a comprehensive package including manufacturing facilities that meet regulatory requirements for most jurisdictions, and experienced development personnel. Cangene's particular competitive strength in this initiative is its ability to work on small-batch, high-technology products.

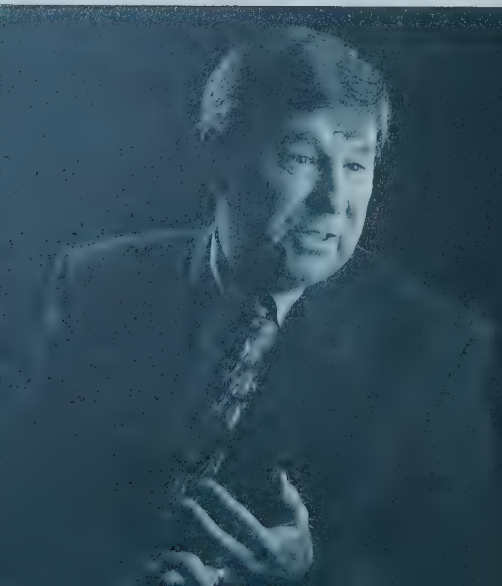
Cangene's manufacturing successes involve diverse technologies in products ranging from plasma products, recombinant proteins, gene therapy products, and antisense compounds. The Company produces clinical trial or commercial lots in its FDA and HPB validated, GMP-compliant, ISO 9001 registered facilities.

Cangene's contract manufacturing is more than just a key component of its growth strategy – it also brings new competencies and economies of scale.

Cangene recently began constructing an additional manufacturing facility. The new 30,000 square feet will house the fermentation and downstream processing stages of manufacturing, bringing all stages of Cangene's biopharmaceutical manufacturing in-house and increasing the range of contract manufacturing services it can offer. The new operation will have a 2000L bacterial fermentation capacity, large enough to support manufacture of commercial lots of drug, and will give Cangene one of the largest capacity fermentation suites in the country operating under the rigorous Good Manufacturing Practices (GMP) standards.

Cangene's excellent track record and reputation for service and quality has attracted customers from around the world:

FROM THE U.S. A three-year agreement with **Nabi,** a U.S. biopharmaceutical company. Cangene is manufacturing Nabi-HB™, an anti-Hepatitis B hyperimmune product. Cangene completed initial manufacturing runs ahead of schedule and Nabi received rapid U.S. licensure for the product.



"Cangene's long-term prospects appear promising because of its history of steady and noteworthy growth in both sales and profits accompanied by strong profit margins. Also the long-term prospects are bolstered by the new manufacturing facility under construction and by the Company's ISO 9001 registration."

"I was influenced by the news release that Cangene is among the 50 fastest growing Canadian technology companies."

Cangene is manufacturing finished product for California-based **Valentis, Inc.** Valentis, a leader in gene therapy, resulted from a merger earlier in the year of Megabios Corp. and GeneMedicine, Inc. Cangene's agreement with Valentis could extend to further products.

FROM CANADA Cangene is manufacturing clinical lots of **GeneSense Technologies Inc.'s** lead antisense compound. Under the ongoing agreement Cangene will also run stability tests on the material.

Including **GeneSense** and **Inex Pharmaceuticals Corporation,** Cangene has five Canadian agreements to its credit. With the work either complete or ongoing, Cangene has provided these customers with a high level of customer service and on-time project delivery. While these projects are largely clinical lot development, Cangene also has the capacity to supply future commercial quantities.

Cangene's outstanding reputation is a valuable asset, and customer service is a priority.

"This effort to perform far 'beyond the mean' is indicative of the high level of professionalism and commitment that we have come to expect from everyone at Cangene who has been involved in the manufacture of our drug product." — Kevin Harper, Inex Pharmaceuticals Corporation

INTERNATIONALLY Cangene has begun investigating international markets outside North America. With one long-standing international relationship under its belt and facilities that meet European and Japanese compliance standards, the Company believes international markets may provide some room for expansion.

MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS

This review contains Management's discussion of the Company's operational results and financial condition, and should be read in conjunction with the accompanying audited financial statements and associated notes.

OVERVIEW Cangene Corporation is a leading Canadian biopharmaceutical company in the business of developing, manufacturing and commercializing products and technologies for global markets. It uses a number of business strategies to maximize shareholder value and minimize risk. Revenue results from product sales, contract manufacturing, and R&D funding from Apotex Inc. The Company's major product categories are: hyperimmune products, which are concentrated specialty antibody preparations made from human plasma; and recombinant biopharmaceuticals, which are therapeutic proteins made by introducing a particular gene into a host organism, which in turn produces the protein of interest. Apotex Holdings Inc., the parent company of Apotex Inc. (a leader in the Canadian generic drug industry), holds approximately 86% of Cangene's common stock. International sales are transacted in U.S. dollars.

WinRho SDF™ is the lead product in Cangene's hyperimmune business. Success with this product, which the Company has distributed to more than 20 countries worldwide, allows Cangene to develop and commercialize additional hyperimmune products. With WinRho SDF™ already commanding about 90% of the Canadian market, the Company concentrates significant marketing efforts on expanding WinRho's sales geographically. Cangene also successfully completed a Phase III clinical trial for its second hyperimmune product, VariZIG SDF™, an antibody to the chicken pox virus. The Company filed for regulatory approval in Canada and was granted priority review status.

The Company's strategy of developing its recombinant biopharmaceuticals as subsequent-entry products differentiates Cangene from other biopharmaceutical companies. Phase III clinical trials on the Company's most advanced recombinant biopharmaceutical product, LEUCOTROPIN™, continue in Canada and the U.S. The Company began a second Canadian trial during fiscal 1999 and will expand this trial by adding clinical sites in the U.K. in fiscal year 2000. The Company received regulatory clearance to conduct a comparative bioavailability trial for its second recombinant biopharmaceutical, human growth hormone, during fiscal 1999. The Company's development of recombinant biopharmaceuticals is supported by an eight-year, $55 million R&D agreement with Apotex Inc.

A third arm of the Company's product and technology strategy, an innovative R&D program, provides opportunities for long-term future growth.

"My broker said – just look at the pipeline and the balance sheet – what more can I say?"

"My take on the company is that it is an exciting young company with energetic and creative management."

"I bought Cangene as a long-term investment in Canadian biotechnology R&D. I like the investment in new R&D facilities and the attempt at a generic-style approach."

Cangene's contract manufacturing initiative grew significantly during this year, and with more than half a dozen contracts in progress, accounted for greater than 10% of the sales revenue for the 1999 fiscal year. The Company expects continued growth in this revenue stream.

NEW DEVELOPMENTS In January 1999, the Company officially opened the first phase of an expansion – a new 35,000 square-foot Research and Development facility in Winnipeg. As well as providing needed laboratory space, the expansion will ultimately allow the Company to perform all its biopharmaceutical manufacturing operations in-house. The Company recently began construction of the second phase – 30,000 square feet of manufacturing facilities, which will house the fermentation and down-stream processing stages of manufacturing and accommodate the rapidly growing contract manufacturing business. Capital expenditures related to this project to date amount to approximately $6 million. The total costs, through completion of the manufacturing portion, will amount to circa $20 million. The Company expects that this facility will be validated and operational in the first calendar quarter of 2001.

Cangene's hyperimmune manufacturing facility received multiproduct licensure from the FDA during the year – a key factor in expanding its product line-up. It is the Company's intent to expand its contract manufacturing business to further employ its manufacturing capacity, which will provide additional revenues and profits.

In July 1999, the Company received regulatory approval from the Medicines Control Agency in the United Kingdom to market its hyperimmune product, WinRho SDF™, which will be sold there by a distributor. Such an approval in the U.K. paves the way for Cangene to apply for regulatory approval in the other European Union countries through the mutual recognition procedure. Cangene also received regulatory approval to market WinRho SDF™ for ITP in Israel, the first non-North American approval for the second indication.

† Sales & Research and Other Income
* aggregate 16-month period ended July 31, 1995

In 1998 the Company entered a strategic alliance with Nabi, a U.S. biopharmaceutical company, with respect to Nabi's anti-Hepatitis B product, Nabi-HB™. Under a contract manufacturing agreement between the two companies, Cangene began generating revenue from supplying Nabi-HB™ to Nabi for sale in the U.S., for which Nabi received FDA approval in March 1999. Cangene has marketing rights to Nabi-HB™ in Canada, and is distributing the product under the Special Access Program in anticipation of regulatory approval of the drug. Nabi is responsible for gaining Canadian approval. Cangene plans to develop its own anti-Hepatitis B product for markets outside the Nabi agreement, with initial IND filing during the first quarter of fiscal 2000.

In July 1999 the Company submitted data from its Phase III clinical trial of VariZIG SDF™, the Company's anti-chicken pox product, in the form of a New Drug Submission (NDS), to Canadian regulatory authorities. VariZIG SDF™ is the Company's second drug to reach this stage. It was granted priority review status by the Therapeutic Products Programme of Health Canada.

* aggregate 16-month period ended July 31, 1995

Apotex Inc. extended its R&D agreement with the Company that supports development of certain recombinant biopharmaceuticals in Cangene's pipeline. Apotex agreed to contribute a further $25 million over a three-year period as an extension of its existing agreement with Cangene. The original $30-million, five-year commitment ran until November 2000. The terms of the extended agreement are similar to that of the original, but are more streamlined and provide more flexibility in the marketing and revenue-sharing arrangements of the products.

As referenced earlier, the Company is in the midst of Phase III trials of LEUCOTROPIN™ in Canada and the U.S. In August, the Company began a second Canadian trial that should address slow patient recruitment in the existing trials, and will expand the list of indications currently being investigated for the drug. Further to this, it expects to start additional clinical sites in the U.K. during fiscal year 2000. The Company also filed an IND for its second recombinant biopharmaceutical, human growth hormone, during the year. The planned comparative bioavailability trial received regulatory approval, and the Company expects to begin the trial in early fiscal year 2000. This is the first time any regulatory agency has authorized such an approach for a subsequent-entry biological product.

The Company re-negotiated its agreement with Apotex Research Inc. (ARI) for the drug known as deferiprone (Ferriprox™). Under the new agreement, Apotex will be responsible for marketing the product worldwide, and Cangene will receive 50% of any net profits from the sales. The Company will no longer be required to reimburse ARI for any past development costs nor pay ARI any royalties on future sales. In August 1999, Ferriprox™ received marketing approval in Europe following a positive recommendation by the European Agency for the Evaluation of Medicinal Products. This approval rendered potentially exercisable the 5.3 million warrants, issued with an exercise price of $2.32, that were granted to Apotex as part of the agreement the companies entered in 1996. Half of these warrants are exercisable now, and half become exercisable if the Company's share of the profits reaches $2 million in any twelve-month period. ARI has until November 5, 2001 to exercise the first 50% of these warrants, while the remaining 50% of the warrants will expire on November 5, 2003.

During the year, the Company received approval from the Toronto Stock Exchange to initiate a normal course issuer bid for up to 700,000 of the Company's common shares representing approximately 9% of the public float. The bid commenced on January 13, 1999 and terminates on December 31, 1999. To July 31, 1999, the Company had acquired a total of 101,900 shares at a cost of $500,956.

COMPETITION AND MARKETS The Company continues to expand its market for the sale of WinRho SDF™ in Canada by providing educational information to physicians on its use for the treatment of ITP, a clotting disorder. In the United States, Cangene's largest market, sales are almost entirely for the ITP indication. When the drug was approved for that market in 1995, Cangene was granted Orphan Drug Status for treating ITP, giving it market exclusivity for that indication until 2002. Current competitive products cannot be administered intravenously so cannot

be used for treating ITP. Nabi sustains market expansion in the U.S. by extensively promoting WinRho SDF™ throughout the country. Sales continue to benefit somewhat from a shortage of IVIG, a product indicated for treating many diseases, including ITP. WinRho SDF™ provides a variety of advantages over IVIG, and the Company believes it should retain many of the new customers even when the IVIG shortage resolves.

Internationally, Cangene has embarked on a more aggressive campaign to market its products. As aforementioned, the Company has received marketing approval for WinRho SDF™ in the U.K. and is preparing to file across Europe. Cangene also concluded a five-year exclusive distribution agreement with CSL Ltd. for the sale of WinRho SDF™ in Australia and New Zealand. Cangene and CSL will work together to achieve regulatory approval for the product in these countries during the forthcoming year.

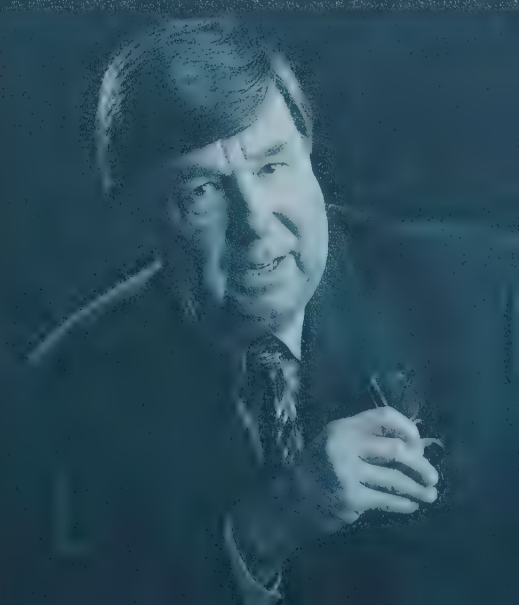
The Company expects to receive regulatory approval for the sale of VariZIG SDF™ in Canada during calendar 2000. There is currently only one North American competitor and Cangene has an excellent product reputation and expects it can capture a significant portion of the market. There is also a chicken pox vaccine available; however, as with all hyperimmunes, VariZIG SDF's utility would be in cases where a vaccine would be inappropriate – either when immediate immunity is desirable or when the patient's immune system is incapable of producing sufficient antibodies for protection.

Cangene is pursuing a subsequent-entry strategy for products in its recombinant biopharmaceutical pipeline. As such, it will compete with already established products in the marketplace. Cangene believes that cost-containment issues within healthcare institutions make the environment favourable for competing on the basis of price. It believes that its manufacturing expertise and cost-effective production technologies will allow it to manufacture products of the highest quality at competitive prices. This product strategy may also shorten regulatory review times, potentially shortening development time required for new products. Cangene's LEUCOTROPIN™ will compete with at least three established products. This is, however, an extremely large market and even a small portion of it could be lucrative for Cangene. Likewise, Cangene's human growth hormone faces several already approved competitors. The market is again very large, with current products claiming a total world market in excess of $1 billion annually.

RISK FACTORS While Cangene does have one product generating sales and has contract manufacturing revenue, most of its products are still under development. There can be no assurance at this stage that any new products the Company develops will receive regulatory approval. If approved, some of these products will

"I like the demonstrated management competence, the financial commitment of management, the diversity of products, the list of evolving new products and the consistent revenue growth rate. Cangene forms a substantial part of my portfolio."

"I like the stock because Cangene is involved in the medical/pharmaceutical field and has demonstrated a good, sustainable growth rate in both revenue and net income over the past four years."



compete with established products of proven safety and efficacy, the manufacturers of which can be expected to employ intellectual property challenges against commercialization of these products by Cangene. There can be no assurance that the Company's products will be commercialized or, if commercialized, that they will be accepted by medical centres, hospitals, physicians, or patients in lieu of existing treatments. Accordingly, there can be no assurance that these products can be successfully manufactured and marketed at prices that would permit the Company to operate profitably.

As discussed above, the Company plans a subsequent-entry approach to the licensing of its biopharmaceutical products. There can be no assurance that regulatory agencies will accept this approach for all the products; if the strategy is found unacceptable by regulatory agencies, the Company would have to follow a full clinical trial program for its biopharmaceutical drugs, which could materially slow their commercialization.

Cangene's profitable manufacture of its hyperimmune products requires the availability of plasma with sufficient antibody levels. While plasma shortages have, in the past, been a concern, Cangene believes it has adequate supplies going forward. There can be no guarantees, however, that shortages will not recur.

YEAR 2000 COMPLIANCE In 1998, Cangene established a project team reporting through the Vice President, Operations, to assess the risk of a material effect on the Company's financial condition or results of operations as a result of the Year 2000 issue, and to proceed with any recommended actions. A project plan was developed into a three-phase implementation procedure, which included a business continuity plan and an extensive review of its internal computer systems.

Cangene has met all milestone dates in its three-phase project plan and reports that all internal core systems are Year 2000 ready. An external review of its strategy and progress has also been concluded.

Generally, the Company believes its exposure in this area is limited, and it has made reasonable enquiry of its major customers and suppliers to add further assurance. However, because of the uncertainty that surrounds the Y2K issue, notwithstanding the steps taken by Cangene, there can be no assurances that Cangene's business operations will not be impacted if its customers and/or suppliers do not properly prepare themselves against any Y2K issues. Consequently, continuity plans are being developed to minimize any third party Y2K complications.

RESULTS OF OPERATIONS *Fiscal year ended July 31, 1999 compared with fiscal year ended July 31, 1998.*

Sales for the year were $40,568,933, a 43% increase over the fiscal year ended July 31,1998. The increase is due mainly to growth in the U.S. market and contract manufacturing. Management believes that sales should continue to expand as additional product approvals, now and soon to be pending, come on stream. The rate of growth however is not expected to continue at its current pace.

Gross margins increased from 53% in 1998 to 56% in 1999. This was anticipated as the Company moved to control a larger portion of its plasma requirements and increased its access to higher concentration plasma, thereby reducing its costs. Management expects margins to remain at or near the 1999 level through fiscal 2000.

Research revenues grew to $8,667,347, a 35% increase over fiscal 1998. These revenues continue to be derived from a research agreement with Apotex Inc. for certain recombinant biopharmaceutical products. To date, the Company has received $27.1 million of a $55 million commitment during the first 45 months of a 96-month term. Research revenues are expected to increase during the next year due to a further emphasis on the development of the recombinant biopharmaceutical products. Research expenses, prior to reduction for investment

tax credits, increased 59% year over year. This reflects an increase in R&D activity outside the Apotex Inc.-funded projects.

Selling, general and administrative expenses increased by $2,327,925 over fiscal 1998 due to increased emphasis on the marketing of product, particularly in the United States, as well as a greater administrative infrastructure necessary as the Company continues to grow.

The Company has recorded the benefits of investment tax credits earned and accordingly now plans to utilize them, which will result in a non-cash income tax expense during fiscal year 2000.

The 1999 net income of $15,412,179, or 26 cents per share, compares with the previous year's net income of $11,000,427, or 19 cents per share. The numbers of common shares used in computing earnings per share were 59,210,420 and 59,147,220 respectively. The Company does not believe that inflation had a material effect on its financial statements.

LIQUIDITY AND CAPITAL RESOURCES Cash at July 31, 1999 was $12,907,849, an increase of $11,731,471 over the previous fiscal year. Working capital was $18,972,385 at the 1999 year-end. The generation of cash from operating activities increased significantly due to a more aggressive receivables and inventory management program, and significantly greater sales.

Cash of $4,526,682 was used to acquire additional manufacturing and laboratory equipment.

The Company has an $8 million line of credit available from a chartered bank, as well as a $5 million, revolving-term loan from Apotex Holdings Inc., the Company's

† After applying investment tax credits
* aggregate 16-month period ended July 31, 1995

majority shareholder. The Company's ability to generate funds from operating activities, including product sales, contract manufacturing and research revenue, as well as debt financing from its bank and parent, are expected to provide sufficient liquidity to meet anticipated needs of existing projects, absent the occurrence of any unforeseen events.

ADDITIONAL COMMENTS The foregoing report contains certain forward-looking comments that involve risks and uncertainties. While the comments reflect management's judgement, there can be no guarantees with such events as regulatory approval, commercial success of new products, the impact of competitive products, pricing, or the availability of raw materials. Actual results may differ materially from those projected.

MANAGEMENT'S REPORT

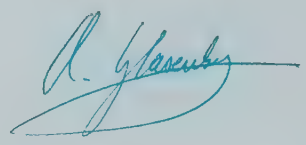
The accompanying consolidated financial statements of Cangene Corporation are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgement. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financing and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling its responsibilities, management of Cangene Corporation maintains internal accounting controls. While no system will prevent or detect all errors or irregularities, the controls are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded, and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility with respect to the consolidated financial statements primarily through its Audit Committee, comprising mainly unrelated directors. The Audit Committee meets periodically with management and the external auditors to discuss the annual audit, accounting policies and practices, and other financial reporting matters.

The most recent financial statements have been audited by Ernst & Young, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows hereafter.

John Langstaff, *President and Chief Executive Officer*



Alex Glasenberg, *Chief Financial Officer*

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CANGENE CORPORATION

We have audited the consolidated balance sheets of Cangene Corporation as at July 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young LLP

Mississauga, Canada
September 10, 1999

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

	AS AT JULY 31 1999	AS AT JULY 31 1998
ASSETS [note 6]		
Current		
Cash	$ 12,907,849	$ 1,176,378
Accounts receivable [note 2]	7,767,611	5,198,446
Inventories [note 3]	9,141,005	13,166,317
Prepaid expenses	741,354	424,922
Total current assets	30,557,819	19,966,063
Capital assets, net [note 4]	19,141,609	17,979,733
Intangible assets, net [note 5]	4,636,417	5,034,558
Deferred income taxes	7,850,496	2,803,648
	$ 62,186,341	$ 45,784,002
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 7,680,701	$ 5,625,596
Current portion of long-term debt [note 6]	3,904,733	1,143,606
Total current liabilities	11,585,434	6,769,202
Long-term debt [note 6]	2,844,998	7,448,569
Deferred income	2,296,130	1,383,215
Total liabilities	16,726,562	15,600,986
Commitments [note 15]		
Shareholders' equity		
Share capital [note 8]	8,818,775	8,468,398
Retained earnings	36,641,004	21,714,618
Total shareholders' equity	45,459,779	30,183,016
	$ 62,186,341	$ 45,784,002

See accompanying notes

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	YEAR ENDED JULY 31 1999	YEAR ENDED JULY 31 1998
Sales	**$ 40,568,933**	$ 28,300,437
Cost of sales	**17,928,073**	13,160,343
Gross margin	**22,640,860**	15,140,094
Income		
Research [note 9]	**8,667,347**	6,430,482
Other	**268,913**	263,881
	8,936,260	6,694,363
Expenses		
Research [note 12]	**10,036,150**	7,045,164
Selling, general and administrative [note 6]	**6,056,791**	3,728,866
	16,092,941	10,774,030
Income before income taxes	**15,484,179**	11,060,427
Income taxes – current [note 7]	**72,000**	60,000
Net income for the year	**15,412,179**	11,000,427
Retained earnings, beginning of year	**21,714,618**	10,714,191
Purchase of common shares in excess of average stated capital [note 8[d]]	**(485,793)**	—
Retained earnings, end of year	**$ 36,641,004**	$ 21,714,618
Basic and fully diluted earnings per share	**$ 0.26**	$ 0.19

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED JULY 31 1999	YEAR ENDED JULY 31 1998
OPERATING ACTIVITIES		
Net income for the year	**$ 15,412,179**	$ 11,000,427
Add (deduct) items not involving current cash payments (receipts)		
Depreciation and amortization	**2,278,060**	1,735,552
Reduction of research expenses for investment tax credits earned	**(3,561,961)**	(2,394,000)
Deferred income recognized	**(508,776)**	(182,954)
	13,619,502	10,159,025
Net change in non-cash working capital balances related to operations [note 13]	**3,194,820**	(874,335)
Cash provided by operating activities	16,814,322	9,284,690
INVESTING ACTIVITIES		
Purchase of capital assets	**(4,526,682)**	(8,353,180)
Contribution in aid of capital asset purchases received	**1,421,691**	250,651
Cash used in investing activities	(3,104,991)	(8,102,529)
FINANCING ACTIVITIES		
Repayment of loan to parent company	**—**	(4,173,104)
Issuance of long-term debt	**1,416,461**	4,424,973
Repayment of long-term debt	**(3,258,905)**	(1,038,615)
Proceeds on issuance of common shares	**365,540**	46,650
Purchase of common shares for cancellation [note 8[d]]	**(500,956)**	—
Cash used in financing activities	(1,977,860)	(740,096)
Net increase in cash during the year	11,731,471	442,065
Cash, beginning of year	**1,176,378**	734,313
Cash, end of year	**$ 12,907,849**	$ 1,176,378

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1999 and 1998

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada applied on a consistent basis. The significant accounting policies are summarized below:

Consolidation

These financial statements consolidate the accounts of Cangene Corporation ["the company"] and its wholly-owned subsidiaries, Cangene U.S. Incorporated, Serex International Inc. and Mid-Florida Biologicals Inc.

Inventories

Inventories are valued at lower of cost [calculated on the basis of average cost] and net realizable value.

Capital assets

Depreciation of capital assets is provided on the straight line method over the following periods based on their estimated useful lives:

Buildings	25 years
Equipment, furniture and fixtures	10 years
Computer equipment	5 years
Leasehold improvements	Term of lease

Intangible assets

Intangible assets are being amortized on a straight line basis over 20 years for goodwill, 25 and 10 years for establishment licences, and 5 years for technology rights. Management annually assesses the carrying value of intangible assets using its best estimate of undiscounted future cash flows and recognizes any impairment in carrying value when it is identified.

Income taxes

The company follows the deferral method of income tax allocation. Deferred income taxes result from the timing differences between deductions claimed for income tax purposes and deductions recorded in the accounts.

Foreign currency translation

The accounts of the company's U.S. subsidiaries are translated into Canadian dollars using current exchange rates for monetary assets and liabilities, historical exchange rates for non-monetary assets and liabilities, and the average exchange rate during the year for revenues and expenses. Exchange gains and losses arising on translation are included in income.

Exchange gains and losses arising from transactions in a foreign currency undertaken by the company's Canadian operations are included in income for the year.

Revenue recognition

Revenue is recognized when product is shipped [note 10[a]] or services are provided.

Revenue received in respect of capital assets used for research and development is recorded as deferred income and amortized over the life of the related assets.

Research and development costs

Research and development expenses are recognized in the year they are incurred, net of related tax credits.

Government assistance

Government assistance in connection with research activities is recognized as an expense reduction in the year that the related expenditure is incurred. Government assistance in connection with capital expenditures is treated as a reduction of the cost of the applicable capital asset.

Federal and provincial investment tax credits are accounted for using the cost reduction method which recognizes the credits as a reduction of the cost of the related assets or expenditures in the year in which the credits are earned and when there is reasonable assurance of their recovery. Investment tax credits recorded in advance of their realization are recorded on the balance sheet as deferred income taxes.

Financial instruments

Unless otherwise stated in these financial statements, the fair value of the company's financial assets and liabilities approximates their carrying value.

Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from the estimates.

2. ACCOUNTS RECEIVABLE

As of July 31, 1999, accounts receivable include approximately $4.5 million [1998 – $3.6 million] due from a major customer and $0.9 million [1998 – $Nil] due from Apotex Inc., a company under common control [note 9].

NOTES CONTINUED

3. INVENTORIES

	1999	1998
Raw materials	$ 3,997,447	$ 3,085,011
Work in process	2,815,715	6,087,588
Finished goods	2,327,843	3,993,718
	$ 9,141,005	$ 13,166,317

4. CAPITAL ASSETS

	1999			1998		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 354,490	$ —	$ 354,490	$ 354,490	$ —	$ 354,490
Buildings	10,176,749	579,849	9,596,900	9,690,959	276,229	9,414,730
Equipment						
Production	7,422,528	2,280,334	5,142,194	6,940,370	1,573,567	5,366,803
Other	7,031,184	3,847,170	3,184,014	5,446,880	3,285,879	2,161,001
Furniture and fixtures	703,340	467,573	235,767	685,837	439,213	246,624
Computer equipment	1,431,813	830,841	600,972	1,054,624	659,891	394,733
Leasehold improvements	589,726	562,454	27,272	582,108	540,756	41,352
	$ 27,709,830	$ 8,568,221	$ 19,141,609	$ 24,755,268	$ 6,775,535	$ 17,979,733

During the year ended July 31, 1998, the company acquired for $999,291 a building and related land to be used for research and administrative purposes from Apotex Fermentation Inc. ["AFI"], a company under common control. This amount approximates fair market value as supported by the recent earlier purchase of the same property by AFI from a third party for a similar amount.

5. INTANGIBLE ASSETS

	1999			1998		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Goodwill	$ 4,174,887	$ 541,235	$ 3,633,652	$ 4,174,887	$ 332,489	$ 3,842,398
Establishment licences	952,007	122,760	829,247	952,007	72,177	879,830
Technology rights	694,064	520,546	173,518	694,064	381,734	312,330
	$ 5,820,958	$ 1,184,541	$ 4,636,417	$ 5,820,958	$ 786,400	$ 5,034,558

6. LONG-TERM DEBT

	1999	1998
Loan from Nabi, non-interest bearing, unsecured [note 10[b]]	$ 3,586,208	$ 3,396,295
Western Economic Diversification Canada loans, repayable in quarterly instalments of $106,175 to March 1, 2000 and commencing on January 31, 2001 at $379,950, non-interest bearing, unsecured	2,223,232	1,936,975
Manitoba Industrial Opportunities Program loan repayable in quarterly instalments of $166,667 commencing January 2, 2002, non-interest bearing subject to certain employment provisions, collateralized by a fixed charge on certain lands, buildings and equipment	940,291	—
Notes payable bearing interest at 3%	—	718,905
Revolving-term loan [note following table]	—	2,540,000
	6,749,731	8,592,175
Less current portion	3,904,733	1,143,606
	$ 2,844,998	$ 7,448,569

The company has available, to a maximum of $8,000,000, a revolving-term loan from a chartered bank, collateralized by a general security agreement in respect to all assets. Interest is payable at the bank prime lending rate. The effective rate of interest during the year was 6.73% [1998 – 6.375%]. The agreement expires on October 31, 2002 and is extendable at the bank's option.

Apotex Holdings Inc., the company's majority shareholder, provides the company with a $5,000,000 revolving-term loan. Interest is payable at the prime rate plus one percent. This loan was repaid in November 1997 and has not been accessed subsequently. The agreement expires in 2002.

NOTES CONTINUED

Future repayment of long-term debt is as follows:

2000	$ 3,904,733
2001	1,139,850
2002	1,264,858
2003	440,290
	$ 6,749,731

Interest expense on long-term debt amounted to $59,549 [1998 – $117,998].

The carrying value of long-term debt exceeds fair value as at July 31, 1999 by approximately $564,000 [1998 – $667,000].

7. INCOME TAXES

[a] Income tax provision

The company's effective income tax rate is determined as follows:

	1999	1998
Combined statutory federal and provincial tax rate	**45.9%**	45.9%
Utilization of scientific research expenditures and investment tax credits not previously recognized	**(45.9)**	(45.9)
Large corporations tax	**0.5**	0.5
	0.5%	0.5%

The consolidated income tax provision of $72,000 [1998 – $60,000] takes into account management's best estimate of the appropriate treatment for income tax purposes of scientific research expenditures and investment tax credits carried forward. This determination is subject to review and acceptance by the income tax authorities. Should they not agree with the determination made by the company, material adjustments to the consolidated tax provision could be necessary. Such adjustments, which are not anticipated, will be recognized, as they become known to the company, in the financial statements.

[b] Scientific expenditures and investment tax credits carry forward

The company has investment tax credits and scientific expenditures with a potential tax value of $9,900,000 [1998 – $9,000,000]. A benefit of $7,800,000 [1998 – $2,800,000] has been recorded in these financial statements; the remaining potential tax value of the deductions of $2,100,000 [1998 – $6,200,000] has not been recorded.

While the scientific expenditures can be carried forward indefinitely, the investment tax credits expire in 2006.

8. SHARE CAPITAL

[a] Authorized and issued

The company's authorized share capital comprises an unlimited number of preferred shares, Class A preferred shares and common shares.

Issued share capital is comprised of common shares as follows:

July 31, 1997	# 59,123,220	$ 8,421,748
Options exercised	24,000	46,650
July 31, 1998	59,147,220	8,468,398
Options exercised	165,100	365,540
Shares purchased and cancelled	(101,900)	(15,163)
July 31, 1999	# 59,210,420	$ 8,818,775

[b] Share options

The Board of Directors may authorize the issuance of up to 4,000,000 common shares upon conversion of options to employees and directors under a stock option plan provided that the number of options outstanding to any one individual at any time does not exceed 5% of the outstanding shares.

Stock option transactions for the respective years and the number of share options outstanding are summarized as follows:

Issued and outstanding, July 31, 1997	# 1,585,000
Issued during the year	981,800
Exercised	(24,000)
Cancelled and expired	(29,000)
Issued and outstanding, July 31, 1998	2,513,800
Issued during the year	812,100
Exercised	(165,100)
Cancelled and expired	(68,200)
Issued and outstanding, July 31, 1999	# 3,092,600

NOTES CONTINUED

These stock options vest over a period of four years with various expiry dates as follows:

Outstanding	Exercise price	Expiry date
# 308,000	$ 1.41	2001 and 2004
# 10,000	$ 2.24	2001
# 1,075,000	$ 2.04	2002 and 2005
# 25,000	$ 2.03	2002
# 868,800	$ 3.55	2003 and 2006
# 805,800	$ 3.50	2003 and 2006

[c] Warrants

Warrants to purchase 5,300,000 common shares were issued at an exercise price of $2.32 per common share [note 11].

[d] Purchase of common shares

During the year the company received approval from the Toronto Stock Exchange to initiate a normal course issuer bid for up to 700,000 of the company's common shares which represents approximately 9% of the public float. The bid commenced on January 13, 1999 and terminates on December 31, 1999. To July 31, 1999 the company had acquired a total of 101,900 shares at a cost of $500,956. The $485,793 excess of purchase price over average stated capital of shares purchased and cancelled in 1999 was charged to retained earnings.

9. DESCRIPTION OF APOTEX RESEARCH AND DEVELOPMENT AGREEMENT

During the year ended July 31, 1999 Apotex Inc., extended its agreement with the company to support the development of certain biopharmaceutical products. The original $30 million, five-year agreement will now provide $55 million in research and development funding over an eight-year period to October 31, 2003. Currently, virtually all of the company's research revenue is earned under this agreement. To July 31, 1999, the company has received $27.1 million. Research revenue is based on the direct research costs plus a contribution to overhead. Under this agreement, Apotex Inc. will be entitled to receive a 12% royalty on net sales of certain biopharmaceutical products developed by the company and a further right to distribute the products. Apotex Inc. and the company will share profits equally. No sale of biopharmaceutical products developed pursuant to this agreement has been made to July 31, 1999.

10. AGREEMENTS WITH NABI

[a] Distribution agreement and revenue recognition

The company has a distribution agreement with Nabi, a U.S. biopharmaceutical company, that provides Nabi with exclusive rights to market and distribute the company's WinRho SDF™ product in the U.S. until March 2005 [note 14]. Revenue from sales of WinRho SDF™ by Nabi is recognized by the company upon shipment by Nabi from its warehouse to the customer.

[b] Loan

As part of the distribution agreement, the company received a loan for capital improvements, which at July 31, 1999 amounted to U.S. $2,380,806 [$3,586,208 Canadian] and at July 31, 1998 amounted to U.S. $2,254,727 [$3,396,295 Canadian]. The loan is non-interest bearing and under an amended agreement signed during the year, will be repaid in the year ending July 31, 2000.

[c] Contract manufacturing agreement

The company entered into a three-year agreement, effective March 22, 1999, to manufacture a drug for Nabi. The company will also distribute the drug in Canada once approval has been received from Health Canada.

11. ACQUISITION OF DEFERIPRONE

On November 5, 1996, the company acquired the rights to a new drug, deferiprone, from Apotex Research Inc. ["ARI"], a company under common control, in exchange for warrants to purchase 5.3 million common shares of the company and an agreement to pay a 10% royalty on future sales. During the year ended July 31, 1999, the company renegotiated the agreement with ARI. The company will no longer be required to reimburse ARI for any of the development costs previously incurred by ARI nor pay a royalty on future sales. However, the company will receive 50% of any net profits from sales of the drug worldwide. The warrants remain and are exercisable at $2.32 per share. 2,650,000 warrants are exercisable if the product is approved for sale in Canada or Europe and 2,650,000 warrants are exercisable if the company's share of the profits reaches $2 million in any 12-month period. 50% of the warrants expire if not exercised by November 5, 2001 and the remaining warrants expire on November 5, 2003. On August 26, 1999, the drug received approval for sale in Europe.

NOTES CONTINUED

12. GOVERNMENT ASSISTANCE

In addition to the non-interest bearing loans from Western Economic Diversification Canada and the Province of Manitoba [Manitoba Industrial Opportunities Program] [note 6], the company has received the following assistance from government agencies and these amounts have been included in the determination of income as a reduction in research expenses as follows:

	1999	1998
The National Research Council Industrial Research Assistance Program	$ 47,978	$ 108,327
National Science and Engineering Research Council	$ 11,933	$ 14,400

In addition, federal and provincial investment tax credits relating to scientific research activities amounting to $3,561,961 [1998 – $2,394,000] were similarly included in the determination of income [note 7[b]].

13. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CASH FLOWS

Net decrease (increase) in non-cash working capital balances related to operations:

	1999	1998
Accounts receivable	$ (2,569,165)	$ 1,823,922
Inventories	4,025,312	(4,408,870)
Prepaid expenses	(316,432)	43,801
Accounts payable and accrued liabilities	2,055,105	1,666,812
	$ 3,194,820	$ (874,335)

14. SEGMENTED INFORMATION

The company operates entirely in the biopharmaceutical industry and does not have significant foreign operations. WinRho SDF™ sales constitute approximately 75% of the company's revenue [1998 – approximately 90%].

Sales revenue includes export sales [primarily to the U.S.] of $32,465,374 [1998 – $22,535,657].

15. COMMITMENTS

[a] Operating leases

At July 31, 1999, the company had commitments under operating leases requiring minimum annual payments as follows:

2000	$ 283,675
2001	87,982
2002	49,229
2003	48,578
2004	23,731
Thereafter	496,250
	$ 989,445

[b] Royalties

The company pays royalties to the New York Blood Center, Inc. and the Winnipeg Rh Institute Inc. based on 3% and 2$^{1}/_{2}$% respectively of sales of WinRho SDF™. The New York Blood Center, Inc. agreement expires in 2005 and the Winnipeg Rh Institute Inc. agreement expires in 2000.

[c] Capital assets

The company is committed to the construction of a manufacturing facility which is expected to be operational by January 2001 and cost approximately $13 million.

16. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. Management developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the company. An assessment of the readiness of third parties, such as customers, suppliers and others, is ongoing. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

DIRECTORS AND OFFICERS

R. CRAIG BAXTER [1] - CORPORATE SECRETARY AND DIRECTOR

Mr. Baxter graduated with a B.Comm. from Concordia University and is a Certified Management Accountant. He has 19 years' experience in financial management, 14 of which have been spent at Apotex. Mr. Baxter is currently President of Apotex International, Inc. and Executive Vice President of Apotex Inc.

ROBERT T. GARVIN [2] - DIRECTOR

Dr. Garvin co-founded Cangene in 1984. He obtained his PhD from Montana State University in 1970 and helped pioneer the fields of molecular genetics and bacterial physiology. Dr. Garvin was Operations Manager of the Genetic Engineering Group at Connaught Laboratories from 1981 to 1984, and is currently Chairman of GeneScape, Inc.

ALEX GLASENBERG [1,2] - CHIEF FINANCIAL OFFICER AND DIRECTOR

Mr. Glasenberg is a chartered accountant and graduated with an MBA from Harvard Business School in 1984. He filled various financial positions in a large international conglomerate, as well as serving in the corporate finance division of a large Canadian bank, prior to joining Apotex in 1990. He is now Vice President - Finance at Apotex Inc.

JACK M. KAY [1] - DIRECTOR

Mr. Kay has more than 25 years' experience in pharmaceutical management and sales, including 17 years with Apotex. He has academic training in business administration from the University of Manitoba and McGill University. Mr. Kay is President and COO of Apotex Inc., serves on the board of Barr Laboratories, Inc., and is Vice-Chairman of the Canadian Drug Manufacturers Association.

JOHN LANGSTAFF [1] - PRESIDENT, CHIEF EXECUTIVE OFFICER AND DIRECTOR

Dr. Langstaff graduated from the University of Manitoba with a PhD in Microbiology in 1981. Dr. Langstaff served as Vice President of Operations and Research at ABI Biotechnology and through its evolution to Rh Pharmaceuticals. He became President and CEO when Apotex acquired Rh, a role he continued when Rh amalgamated with Cangene in 1995.

1 Member of Management Committee 2 Member of Audit Committee

JOHN NYSTROM [2] - DIRECTOR

With 28 years of industry experience and 19 years with U.S. consulting firm Arthur D. Little, Inc., Dr. Nystrom joined the Medicines Company as Vice President of Technical Operations early in 1998. The Medicines Company, based in Cambridge, Massachusetts, selectively acquires late-stage drug candidates for development and commercialization.

BERNARD C. SHERMAN [1] - CHAIRMAN

Dr. Sherman graduated with a PhD from M.I.T. in 1967 and founded Apotex in 1974. Currently Chairman and CEO of Apotex Inc., Dr. Sherman is also a director of the Canadian Drug Manufacturers Association and a principal shareholder of Barr Laboratories, Inc. He serves on the Board of Governors for Mount Sinai Hospital and the Baycrest Centre for Geriatric Care.

MICHAEL SPINO [1] - DIRECTOR

Dr. Spino completed his doctoral fellowship at the Toronto Western Hospital in 1975. He subsequently worked as Senior Scientist at the Research Institute, Hospital for Sick Children in Toronto, and taught in the faculties of Pharmacy and Medicine at the University of Toronto. Dr. Spino joined Apotex in 1991 where he is Senior Vice President - Scientific Affairs.

RICHARD W. TAYLOR [2] - DIRECTOR

Mr. Taylor has 38 years' experience in the healthcare sector. He currently acts as consultant to several large healthcare companies. He also spent 15 years within the Johnson & Johnson Inc. organization in senior management roles.

OFFICERS

WILLIAM LABOSSIERE BEES

Vice President, Operations

WENDY JOHNSON

Vice President, Research & Development

Effective November 8, 1999

JOHN W. MCMILLAN

General Manager

ANDREW D. STOREY

Vice President, Quality Assurance/Clinical & Regulatory Affairs

CORPORATE INFORMATION

ANNUAL AND SPECIAL MEETING OF THE SHAREHOLDERS

Wednesday, December 8, 1999
at 4:00 pm
Westin Harbour Castle
1 Harbour Square
Toronto, Ontario M5J 1A6

SHARE REGISTRAR and TRANSFER AGENT

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Toronto, Ontario M5J 2N1

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FISCAL YEAR-END

July 31st

TRADING SYMBOL

CNJ (Toronto Stock Exchange)

SHAREHOLDER INQUIRIES

For further information about Cangene and its activities, please contact **Ms. Jean Compton, Manager of Investor Relations** at Cangene in Mississauga, **(905) 405-2900,** or by e-mail at **jcompton@interlog.com**

GLOSSARY

Antibody A protein made by white blood cells that reacts with a specific foreign protein as part of the immune response; autoimmune disorders occur when the body inappropriately makes antibodies against its own tissues or cells

Antisense Compound Molecules containing nucleic acid sequences that are complementary to a target nucleic acid; used to block activity of the target.

FDA United States Food and Drug Administration: a regulatory body

Fibrosis A thickening and scarring of connective tissue

GM-CSF Granulocyte-Macrophage Colony-Stimulating Factor; a protein that normally stimulates the proliferation of certain, infection-fighting white blood cells

Hemolytic Disease of the Newborn A serious blood type incompatibility between a pregnant woman and the fetus

Hyperimmune Highly purified preparation of specific antibodies made from specialty human plasma

Immunoglobulin Class of proteins that function as antibodies

IND Investigational New Drug submission to a regulatory agency

ITP Immune Thrombocytopenic Purpura; an autoimmune disorder causing abnormal destruction of blood platelets, potentially leading to severe bleeding

Peptide A portion of a protein that may or may not have biological activity, and may share some or all activity with a larger protein counterpart

Plasma The fluid (non-cellular) portion of blood

Platelet Small disk-shaped body in the blood – critical for normal blood-clotting

Recombinant DNA Genetic material (DNA) that has been rearranged, through laboratory manipulation, into a new combination; often used to describe the combination of genetic information from different cells or species

Recombinant Proteins Proteins made from recombinant DNA; often describes proteins made by introducing their genetic information into a selected host cell for commercial production

Therapeutic Products Programme The branch of Health Canada dealing with drug regulation

"I am one of your first shareholders and am very pleased with your progress. Keep up the good work."

CANGENE

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